

Message Text

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CONFIDENTIAL STATE 176980

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PASS TO UNDER SECRETARY NEWSOM

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: 1974 PAKISTAN DEBT RESCHEDULING

REFTEL: (A) STATE 172797, (B) TEHRAN 06529, (C) STATE
176293

1. FOLLOWING RESPONSE TO YOUR QUESTION IN PARA 2 OF REF B.
2. TREASURY (UNDER SECRETARY SOLOMON) CONTINUES TO HOLD TO ITS VIEW THAT THE U.S. GOVERNMENT SHOULD NOT ACCEPT THE PAKISTAN POSITION THAT THE 1974 DEBT RESCHEDULING INCLUDED DEBTS GUARANTEED BY THE PAKISTAN GOVERNMENT. HOWEVER, IF IT IS YOUR JUDGMENT THAT A SIGNIFICANT REPEAT SIGNIFICANT POLITICAL BENEFIT WILL BE DERIVED FROM A COMPROMISE ON THIS ISSUE, THEN TREASURY WILL NOT OBJECT TO YOUR INFORMING THE

CONFIDENTIAL

PAGE 02 STATE 176980

GOP OF OUR WILLINGNESS TO ACT IN ACCORDANCE WITH THE PAKISTAN INTERPRETATION.

3. SHOULD YOU DECIDE TO MENTION THE 1974 RESCHEDULING ISSUE, WE SUGGEST YOU DO SO IN YOUR MEETING WITH GHULAM ISHAQ, MINISTER OF FINANCE. THE WORDING YOU USE WILL BE EXTREMELY IMPORTANT. THE ISSUE IS HIGHLY TECHNICAL AND

MISUNDERSTANDINGS COULD CAUSE CONTINUING PROBLEMS. IT IS
IMPORTANT TO MAKE CLEAR THAT THIS ACTION RELATES SOLELY TO

THE PAST (1974) AGREEMENT AND HAS NO REPEAT NO EFFECT ON
PAKISTAN'S REQUEST FOR A NEW DEBT RESCHEDULING. WE
SUGGEST THAT YOU APPROACH THE TOPIC IN A VERY BROAD MANNER
AND REFER THE DETAILS TO SPECIALISTS ON THE ISSUE.

4. YOU MAY WISH TO USE THE FOLLOWING TALKING POINTS.

A. THE 1974 IBRD SPONSORED DEBT RESCHEDULING AGREEMENT
RELATED TO DEBT SERVICE FALLING DUE OVER A FOUR YEAR PERIOD
(JULY 1, 1974 - JUNE 30, 1978).

B. IN THE USG VIEW, THE AMOUNT CREDITORS WERE TO
RESCHEDULE WOULD BE COMPUTED ON THE BASIS OF DEBT SERVICE
FALLING DUE ON CREDITOR GOVERNMENT LOANS OR LOANS
GUARANTEED BY CREDITOR GOVERNMENTS.

C. PAKISTAN HAS DISPUTED THIS INTERPRETATION, AND ARGUED
THAT LOANS GUARANTEED BY THE GOP SHOULD ALSO HAVE BEEN
INCLUDED IN THE COMPUTATIONS, EVEN IF THEY WERE NOT
GUARANTEED BY CREDITOR GOVERNMENTS.

D. GIVEN THE EXCEPTIONAL CIRCUMSTANCES SURROUNDING THE
1974 RESCHEDULING, THE USG IS PREPARED TO ACT IN ACCORDANCE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 176980

WITH THE PAKISTAN INTERPRETATION OF THE 1974 AGREEMENT.

E. THE NET EFFECT OF THIS DECISION IS THAT, IN ORDER TO
COMPENSATE FOR THE ADDITIONAL AMOUNTS THAT SHOULD HAVE
BEEN RESCHEDULED OVER THE LAST FOUR YEARS, THE USG WILL
RESCHEDULE \$2.8 MILLION IN USG DEBT SERVICE FALLING DUE
IN THE FISCAL YEAR BEGINNING JULY 1, 1978. CHRISTOPHER

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